**Private Letter Ruling**

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| **Ruling Number:** | **P-2002-049** |

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| **Tax Type:** | **Kansas Retailers' Sales Tax** |
| **Brief Description:** | **Integrated plant exemption.** |
| **Keywords:** |  |
| **Approval Date:** | **05/21/2002** |

**Body:**

Office of Policy & Research

May 21, 2002

XXXX
XXXX
XXXX

RE: Your letter of April 22, 2002

Dear XXXX:

Thank you for your letter. You ask if the purchase of a large piece of equipment qualifies for exemption under the Kansas integrated plant exemption found at K.S.A. 79-3606(kk). This exemption was enacted by the Kansas legislature in 2000. Before that, K.S.A. 79-3606(kk) was a more limited exemption that only extended to equipment that touched or effected the item being manufactured. You state that your business is "a retail/wholesaler of steel and pipe products and have added a new facility at our Kansas City location to handle manufacturing of cut products for our customers." Your internet site provides a more in-depth view:

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| For more than 50 years, XXXX has supplied quality carbon steel, pipe, and tubing products to all types of industries throughout the Midwest. |
| http://rvpolicy.kdor.ks.gov/icons/ecblank.gif |
| We owe our success to our many customers. Satisfying their needs has resulted in the extraordinary growth and expansion of our market area. |
| http://rvpolicy.kdor.ks.gov/icons/ecblank.gif |
| Our extensive inventory consists of approximately 80 thousand tons of steel in a full range of sizes. The cornerstone of our distribution capability is 800,000 square feet of inventory storage, divided between Manhattan, KS; Tulsa, OK; St. Louis, MO; Kansas City, MO; and Longview, TX. |
| http://rvpolicy.kdor.ks.gov/icons/ecblank.gif |
| A professionally managed fleet of 85 tractors and 206 trailers ensure prompt delivery. Our major markets are served with next-day delivery, while more and more of our customers are asking for, and receiving, just-in-time delivery. |
| http://rvpolicy.kdor.ks.gov/icons/ecblank.gif |
| To serve you better, XXXX employs an experienced outside sales staff, complemented by an equally professional inside sales force, and a very knowledgeable customer service department. You have access to them via toll-free inbound WATS numbers, fax machines, email, and electronic voice mail. |
| http://rvpolicy.kdor.ks.gov/icons/ecblank.gif |
| We are confident we can earn your trust and your business. We sincerely value our customer relationships and hope to have the opportunity to be of service to you. |

As I will explain, the purchase of the new machine by your company does not qualify for exemption from Kansas sales tax under K.S.A. 79-3606(kk) since your company does not qualify as a manufacturer.

Manufacturing and processing operations generally involve transforming raw materials into a finished product. Under the law, "[m]anufacturing or processing businesses do not include, by way or illustration but not of limitation, nonindustrial businesses whose operations are primarily retail and that produce or process tangible personal property as an incidental part of conducting the retail business. . . ." Under the law, a pipe and metal business that cuts pipe and metal to an end user's specification is not a manufacturer or processor. End users include contractors who buy materials to build buildings or have materials altered by a business such as yours.

You indicate that you use the equipment in question to cut: "base plates for building columns, panels for doors, yokes for farm tillage equipment, end plates for floor sales, counter weights for forklists and bride leveling plates." These services appear to be done for the end user and are not part of an integrated production process that transforms raw materials into finished products. Your business is primarily a retail business that cuts steel for its customers as incidental part of its retail operations.

I believe that I have answered all of your questions. If you have more, please call me at 785-296-3081 and we will discuss them. This private letter ruling is based solely on the facts provided in your request. If it is determined that undisclosed facts were material or necessary to make an accurate determination by the department, this ruling is null and void. This private letter ruling will be revoked in the future by operation of law without further department action if there is a change in the statutes, administrative regulations, or case law, or a published revenue ruling, that materially affects this private letter ruling.

Sincerely,

Thomas E. Hatten
Attorney/Policy & Research

**Date Composed: 06/18/2002 Date Modified: 06/24/2002**